**Videotaped Remarks by**
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**and**
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## Introduction

Good morning and thank you for the opportunity to take part in the conference and to speak with you today.

I regret not being able to be with you in person, and particularly appreciate the accommodation of letting me record these comments.

There are two areas that I wanted to focus on today.

One, the FDIC just released its Quarterly Banking Profile for the fourth quarter of last year and I wanted to share some of the results with you.

Then I wanted to share with you a few thoughts on community banking and recent rulemakings we've done, and in particular a few comments on this issue of consolidation – especially within the community banking sector – which I know has been a matter of attention and concern on the part of community banks.

## Year-end Financial Results for FDIC-Insured Institutions

So if I may, let me start with the Quarterly Banking Profile.

I think the bottom line here is that the banking industry in the United States has been experiencing a gradual but steady process of recovery over the past four years.

We had the financial crisis of 2008 and 2009 and the ensuing recession, but the period from 2010 through the end of last year has been one of gradual recovery for the industry by almost any measure.

Net income has been rising over that period of time, credit quality has been improving, and even loan balances over the last three years have been modestly expanding.

I think a point worth raising is that net income growth has largely been driven by a reduction loan-loss reserves, and it's not clear how long that process can continue.

It's also worth noting that revenue has been essentially flat over this period, reflecting the narrow net interest margins and relatively weak loan demand.

But the overall picture is steady progress in the recovery of the banking industry.

Both the capital and liquidity for the industry – from large to small institutions – is in a strong position today -- certainly far stronger than it was three or four years ago.

And all of the internal indicators for the FDIC have been moving in a clearly positive direction now for several years.

Bank failures have been coming down dramatically.

They peaked at 157 in 2010; last year we had 24 bank failures in the United States.

The problem bank list, of 4- and 5-rated institutions that the FDIC maintains peaked at 888 in March 2011.

As of the fourth quarter of last year, problem banks were down to 467.

That's still an elevated number, but over a 40 percent decline from the peak.

The Deposit Insurance Fund, which at the low point during the crisis was as much as $20 billion in the red, as of the fourth quarter of last year was $47 billion in the black.

The reserve ratio of the Deposit Insurance Fund -- that's the ratio of the net worth of the fund to all insured deposits was at 0.79 percent.

The FDIC is required by law to get that up to 1.35 percent by 2020, but we're very much on track to do that.

So the bottom line story that I wanted to share with you today is that the banking industry is in a much stronger position than it was several years ago.

Community banks have certainly participated significantly in that improvement.

The U.S. has averaged GDP growth of about 2 to 2 ½ percent over the past four years.

We had hoped – and still hope – to do better than that this year.

But even if we just maintain that relatively modest rate of growth, we think these positive trends can continue, and there is a real prospect of the banking industry getting past this period of the aftermath of the crisis and recession and being well positioned to contribute to meeting increased credit demand and, hopefully, contributing to a more virtuous cycle for the economy.

**Emerging Risks in Banking**

There are still clearly risks out there.

The Fed is going to be in the process of shifting its monetary policy from the very accommodative low interest rates to an environment of rising interest rates. That in some measure may be welcomed by bankers as an opportunity to increase margins, but also carries interest rate risk with it. That is something the FDIC will be very attentive to from a supervisory standpoint.

And there are clearly still uncertainties and risks internationally.

But it is fair to say that the picture for the banking industry has been improving for the past four years and right now the probability seems to be for a continuation of those positive trends.

**FDIC Research on Community Banks**

So let me turn if I may to a few comments and thoughts I wanted to share with you in regard to community banks.

I'm sure that many of you are aware that the FDIC released a major study at the end of 2012 on the role of community banks in the banking system of the United States.

This was the first major study ever done on the contribution and role of community banks in our financial system.

There were two key findings from that study that many of you may be aware of.

One, that community banks matter, and are critically important to the functioning of our banking system and economy.

The study found that community banks account for about 14 percent of the banking assets in the United States, and at the same time they account for around 46 percent of all the small loans to businesses and farms made by all banks in the United States.

With just 14 percent of industry assets, community banks account for nearly half of all the small business lending done by all banks in the United States – a critical function for our banking system.

In addition, the Study found that while there are about 3,000 counties in the United States, approximately 600 of them would have no physical banking presence if not for the community banks operating there.

So for thousands of small towns, rural communities and urban neighborhoods around the United States, if not for community banks there would be no physical access to a federally insured institution, and for a lot of communities that's vital to the survival of the community itself.

So, number one, community banks matter.

Number two is that even through this very challenging period of these past five years since the crisis, the community bank business model has actually held up quite well.

The core model of community banks, as our Study defined it, is careful relationship lending, funded by stable core deposits, focused on the local geographic community that the bank knows well.

The vast majority of community banks that stayed with that business model actually came through this very difficult period quite well.

It's true that over 400 banks with assets under $1 billion failed during the course of this crisis.

But the fact is – and we know this because the FDIC Board approves every failing bank case – those institutions, virtually without exception, departed from the traditional model and tried to grow faster with risky assets often funded by volatile brokered deposits.

And they're the ones that ended up on our failing bank list.

The traditional community banks did not.

So the bottom line findings of our Study were that community banks matter and are important to the banking system and the economy, and, that the community bank business model remains quite viable.

Banking Agencies Have Been Responsive to Community Bank Concerns

I think it is fair to say that there is now a recognition by the bank regulatory agencies of the importance of community banks, and the need to take into account in our rulemaking process the impact of rules on community banks and to do it in an explicit way.

There are two recent major examples I would point to.

One is the Basel III capital rulemaking that we did last year, on which we received a lot of comments from community banks focused on three issues in particular: mortgage risk weights; this so-called AOCI issue; and the treatment of TruPS.

On all three of those issues, in the final rule the agencies made significant changes in order to be responsive to the concerns expressed by community banks.

In December, the agencies issued the final Volcker Rule.

In this final rule, community banks that do not engage in activities covered by the Volcker Rule have no compliance obligations, and even those that do have a only minimum compliance obligation to follow.

In addition, after we issued the final rule the problem in regard to TruPS CDOs emerged.

At the urging of community banks, the agencies focused quickly on that, and made a change in the final rule to address that problem that I think most community banks found to be responsive to the issue.

Those are just two examples of the attention to community banks in the rulemaking process.

That's very much a focus and priority for the federal banking agencies going forward.

And certainly for the FDIC this has been a major priority for us, and will continue to be.

In addition, The FDIC has particularly tried to focus on the issue of technical assistance which many community banks have raised with us – that they place a particular value on.

Over the course of the past year, the FDIC released a series of videos, the first set focused on bank director responsibilities; the second set placed an entire bank director college online; the third set focused on hot button issues in risk management and compliance supervision. Bank management and bank directors can access these videos at their own convenience and their own time.

The response we've had from bankers has been quite positive.

**Consolidation and the Future of Community Banking**

I wanted to conclude my remarks today by sharing with you some preliminary findings of a report that the FDIC is going to release in the near future on consolidation in the banking industry over the past 30 years and particularly on consolidation in the community banking sector.

I wanted to share some highlights of this work with you because I think it sheds some light on this whole issue.

The headline number that people have focused on is the fact that 30 years ago, in 1984, there were about 18,000 federally-insured institutions in the United States.

At the end of last year there were just under 7,000.

And so the obvious concern raised is there has been a substantial reduction in the number of banks in the United States, and a particular concern about the reduction in the number of community banks.

Will this consolidation trend continue? What will it mean for the future of community banks?

So let me share with you some findings that get beneath the headline numbers but I think shed some light on this.

First of all, the entire differential in the number of banks today as opposed to 30 years ago – a decline of about 11,000, from about 18,000 to just under 7,000 – is accounted for by the reduction in the number of institutions with assets under $100 million.

Thirty years ago, we had 13,800 banks in the United States with assets under $100 million. As of the end of last year there were about 2,050 institutions with assets under $100 million.

There is your entire differential of 11,000 banks.

Within that number, there were about 6,000 institutions in the United States 30 years ago with assets under $25 million. Today, there are around 200.

So if you want to say that banks with assets under $25 million have been disappearing in the United States over the past 30-year period, that would be an accurate statement.

But let me share some additional numbers with you.

If you look at banks with between $25 million and $100 million in assets, 30 years ago there were over 7,700 institutions in that category.

Today, there are around 2,000 – a substantial reduction.

But our examiners around the country will tell you most of those 2,000 institutions – although quite small – remain, for the most part, quite viable and important to the communities they serve.

But more to the point, if you look at community banks with assets between $100 million and $1 billion, there are more banks today – with a larger volume of total assets – than there were 30 years ago.

And in regard to banks between $1 billion and $10 billion – many of which can reasonably be viewed as community banks– there are more banks today, with a larger volume of total assets, than there were 30 years ago.

Clearly consolidation has taken place, and is continuing, in the community banking sector.

But our analysis suggests that a large majority that consolidation is by community banks, with other community banks, resulting in a community bank.

Between 2002 and 2012, about two-thirds of the community banks that merged out of existence were acquired by another community bank.

For institutions under $100 million, over 85 percent were acquired by other community banks.

So the substantial majority of the consolidation and mergers and acquisitions taking place are within the community banking sector.

The bottom line conclusion that we draw is that while consolidation is occurring, it's actually been highly concentrated in institutions under $100 million; the numbers between $100 million and $10 billion are actually quite stable; and that the consolidation that is occurring is within the community banking sector, rather than large institutions coming in and acquiring small banks and essentially seeing community banks disappear.

**Conclusion**

The three points I would like to leave you with this morning are:

Community banks are vitally important to the banking system and economy of the United States; the community banking business model remains quite viable going forward; and the community banking sector in the United States has actually remained quite stable over the past 30 years and the consolidation that's occurring is mostly within that sector.

The conclusion of the FDIC from the work we've done is that the community banking sector in the United States is going to be here for the long term, and continue to play a vitally important role in the banking system and economy of the United States.

The role that community banks play is not one that the larger institutions are well-positioned to fill.

The FDIC is going to remain committed to maintaining a strong community banking sector in the United States, and will be highly sensitive to the impact of rulemaking and examinations on community banks.

I wanted to share that set of thoughts with you.

I know this is a dialog we're going to continue.

I look forward to seeing many of you in the near future.

Thank you very much.

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